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release PROPERTY MANAGEMENT

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To subdivide or not...that is the question

So you're staring at your investment property from the curb side and you're thinking to yourself...*"Gee that's a great size block. I bet you could fit four units on there"*...But is your property suitable for a subdivision? Are ***you*** compatible for a subdivision? Assuming you are looking to develop an existing residential block, let us look at what's involved...

The first thing you should investigate is whether the property has any caveats, covenants or easements and all relevant Res code requirements. The information you uncover at this point may determine whether or not you proceed.

You will also need to decide how many dwellings you want to build on your land. You will need to take into account the shape, slope, orientation and any other existing features that may affect the development. Keep in mind any regulations relating to property boundaries, local Council regulations, the number of bedrooms will impact on the number of parks required, vehicle access and turning areas, the number and size of private space per dwelling, and the impact to surrounding neighbours properties...How are the motivation levels? Dropping or do you still see a viable opportunity?

The length of the planning application process also needs to be factored in. You may not be able to afford a long and arduous process, but how do you factor the length of the process when you are subject to objections? Despite a prescribed time limit of 60 days on Council to process your application, you are still at risk of a far more lengthy process if the Council needs more information, or if locals lodge an objection. Any interruption to the process will result in the 60 day process being halted or even restarted if further investigation into the subdivision is required. To gain further insight into this process, you can go online to http://brutalart.com.au/subdividing-land/land-subdividing/ or the many other websites that provide in-depth information on subdividing residential property.

Assuming you have made it through the planning permit stage unscathed, you still have to find the stamina to build. Depending on the length (up to 12 weeks!) of the application stage, your finances may dictate that you now need to speed up the process of that build. Hence subdivision is not for the feint hearted. You must be fully prepared, have a well thought out plan of attack and provision in the budget to cope with any hiccups.

Stamp duty...the change is coming

Historically, stamp duty was literally a charge for the physical stamp impressed on or attached onto documents drawn up for the transaction of land and other legal matters. Today, the State Government (not Federal) is responsible for this tax and uses this revenue to fund Health, Transport and Roads, Police, Justice and Emergency Services, Education and Training, Human Services, and Environment, Climate Change and Water. Seems fair when you consider these are all important and much needed services...

Over the years the payment of stamp duty has often been a topic of great debate and no doubt this argument will rear its ugly head again in the not too distant future. Why? In October last year, the Victorian State government passed the law that stamp duty will now have to be paid in 30 days of settlement, down from 90 days. Despite the fact that this law was not subject to discussion but rather implemented at will by the current State government, what is the great debate? We are not paying more tax. Public services have not been reduced. Moreover, 85 per cent of people pay their stamp duty within 30 days anyway. For those of you who have been living under a rock and missed this update, don't get caught budgeting for a 90 day payment on stamp duty. As of April 1st this year, stamp duty will be payable within 30 days of settlement. So start preparing now to avoid getting a nasty surprise later.

REIV AWARDS FOR EXCELLENCE 2011 Corporate Support Person of the Year WINNER

REIV AWARDS FOR EXCELLENCE 2011 Achievement (Rookie) Award FINALIST

REIV Geelong Division | WINNER 2011 Property Manager of the Year

REIV Geelong Division | WINNER 2011 Administrative Person of the Year

REIV 2009 Geelong Division Administrative Staff Person of the Year

REIV 2008 Geelong Division Young Achiever of the Year

REIV 2008 Geelong Division Customer Service Finalist

Diversify your property portfolio...

If you want to invest in commercial property but don't have the money and/or expertise to go it alone, there are two alternatives; property trusts and property syndicates. Pooling your funds with other investors in vehicles such as property trusts and property syndicates provides exposure to a broader range of property – including commercial, industrial and retail as well as residential – often with a smaller investment required. However there is much research to do before you leap.

To learn more, follow these links:

- http://www.theage.com.au/money/tools-and-guides/step-6-nonresidential-property-20100528-wl54.html?gclid=CLf6wqze9q0CFWNKpgod6GFstw;
- http://discover.realestate.com.au/buying/investing/investing-property-syndicates-and-property-trusts-when-should-you-use-these;
- http://www.ato.gov.au/content/33727.htm.

Calculating your return on your investment property...

If you are an avid reader of property magazines, research the current market trends by surfing the various property sites on the Internet and scour the property guides in the newspapers each week, you will have heard a lot of chatter about a flat market, prices to remain stable with little to no growth for much of the remaining year, and pending decreases in interest rates...Its good news for those looking to buy, especially if what you are after is an investment property. As the old adage states...buy low, sell high!

Yet where do we make our money in the investment property market?...Capital growth and rental income.

Capital growth is the increase in the value of your property over time and historically, Australian residential property has experienced strong capital growth - it's one of the main reasons people invest in residential real estate. However periods of stagnation and even decline are also part of the picture. The nature of the property cycle means real estate should probably be thought of as an investment with a ten year horizon.

Now whilst house prices can and do rise, some areas experience a backward trend in price. Your best chance of achieving capital growth is buying the right property, in the right place, and – most importantly – at the right price. Keeping an eye on sale and auction results in the papers, attending and observing auctions, or buying reports on specific suburbs from researchers like Australian Property Monitors' Home Price Guide or speaking to real estate agents can help you achieve this. However benchmark the potential return against what you might achieve elsewhere ie term deposits, shares etc.

An important measure is a property's yield. That can be calculated by dividing the annual rent it generates by the price you paid for the property and multiplying that by 100 to get a percentage figure.

Remember though, yields fall as house prices rise (if rent doesn't rise commensurably).

Keep an eye on vacancy rates – the proportion of properties sitting empty out of the total rental supply. If landlords have to fight for tenants, they won't have much 'pricing power' with regard to rent. However, if the rental market is tight, and tenants are competing for properties, they'll be prepared to pay a bit more to get in the door. A vacancy rate above 3 per cent is a warning sign, and it may pay to be wary of areas where there's going to be a big increase in the supply of apartments.

In any case, build into your calculations your likely return periods and when you'll be in between tenants. Make it a practice to have a buffer between the time rent is due and when the mortgage is due, budget for your property being empty occasionally, plan for maintenance expenses, stay on top of maintenance, allow for costs such as an agent's fees, land tax, rates and repairs, and have good insurance cover – building, public liability and landlord insurance.

Making your investment pay...

If you hold your investment property for long enough, you're likely to reach the stage where losses start turning into gains. The rent you're charging should have risen over time, however, once your rental income exceeds your mortgage repayments you'll no longer be negatively geared. No negative gearing means no tax advantages. Remember though there are many expenses you can claim relating to your rental property...advertising for tenants, bank charges, body corporate fees, borrowing expenses, council rates, depreciating assets, gardening and lawn mowing, insurance, land tax, pest control, property agent fees or commissions, repairs and maintenance, stationery, telephone, water charges, and travel undertaken to inspect the property or collect rent.

If you don't choose to sell you'll have to pay more tax because the income you're making is more than your losses – but the fact is you're making money, which is why you invested in the first place, right? The temptation may be to take your profits and plough them into another property –a perfectly reasonable strategy – but don't lose track of the costs involved in selling. Stamp duty alone is a big disincentive. Do the sums and make the right decision for you.